

BUCHANAN COUNTY
Independence, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

BUCHANAN COUNTY, IOWA
Independence, Iowa

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BUCHANAN COUNTY
Independence, Iowa

OFFICIALS

<u>Name</u>	<u>Term Expires</u>	<u>Title</u>
Leo Donnelly	January 2007	Board of Supervisors
Ellen Gaffney	January 2005	Board of Supervisors
Ralph Kremer	January 2007	Board of Supervisors
Cindy Witt	January 2005	Auditor
Judy Harland	January 2007	Treasurer
Diane Curry	January 2007	Recorder
Leonard Davis	January 2005	Sheriff
Allan Vander Hart	January 2007	Attorney
Virginia Sleeper	Appointed	Assessor

Independent Auditors' Report

To the Officials of Buchanan County
Independence, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Buchanan County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan County at June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, during the year ended June 30, 2004, Buchanan County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 17, 2005 on our consideration of Buchanan County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 - 9 and 36 - 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Buchanan County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed qualified opinions on those financial statements for the omission of complete historical records of fixed assets. The two years ended June 30, 2002 were also given qualified opinions of material and supplies inventory pertaining to Secondary Roads. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Buchanan County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- . Revenues of the County's governmental activities increased 10%, or approximately \$1,099,856, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$576,246, operating grants, and capital grants and contributions increased approximately \$511,017.
- . Program expenses were 3% or approximately \$348,369, more in fiscal 2004 than in fiscal 2003. Roads and transportation expense decreased approximately \$228,384.
- . The County's net assets increased 107% or approximately \$5.2 million, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Buchanan County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Buchanan County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

- 1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Debt Service Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) Proprietary funds account for the County's Internal Service Fund, Employee Group Health Insurance Account. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency

Funds that account for E911 and emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Buchanan County's combined net assets were substantially increased from a year ago, increasing from \$4.8 million to \$10 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)	
	2004
Current and Other Assets	\$9,088
Capital Assets (Net of Depreciation)	8,008
Total Assets	17,096
Long-Term Debt Outstanding	535
Other Liabilities	6,523
Total Liabilities	7,058
Net Assets:	
Invested in Capital Assets, Net of Related Debt	8,008
Restricted	2,396
Unrestricted	(366)
Total Net Assets	\$10,038

Net assets of Buchanan County's governmental activities increased 107% (\$4.85 million compared to \$10.04 million). The largest portion of the County's net assets is the invested in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—decreased from approximately \$368,024 at June 30, 2003 to a deficit of \$366,325 the end of this year, a substantial decrease.

This reduction of approximately \$734,349 in unrestricted net assets was a result of increased expenditures for roadway maintenance, capital projects, and daily expenses. The County increased its investment in roadway equipment and road construction by approximately \$692,303 over the prior year.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Revenues:	
Program Revenues:	
Changes for Service	\$1,160
Operating Grants, Contributions and Restricted Interest	4,277
Capital Grants, Contributions and Restricted Interest	3,938
General Revenues:	
Property Tax	5,342
Penalty and Interest on Property Tax	57
State Tax Credits	308
Local Option Sales Tax	437
Franchise Tax	18
Unrestricted Investment Earning	29
Other General Revenues	275
Total Revenues	15,841
Program Expenses:	
Public Safety and Legal Services	2,188
Physical Health and Social Services	156
Mental Health	2,373
County Environment and Education	641
Roads and Transportation	3,136
Governmental Services to Residents	335
Administration	1,707
Non-Program	101
Interest on Long-term Debt	12
Total Expenses	10,649
Increase in Net Assets	5,192
Net Assets Beginning of Year	4,846
Net Assets End of Year	\$10,038

The results of governmental activities for the year resulted in Buchanan County's net assets increasing by approximately \$5.19 million. Revenues for governmental activities increased by approximately \$1.09 million over the prior year, with property tax revenue up from the prior year by approximately \$576,246 or 11%.

The County increased property tax rates for 2004 by an average of 2.4%. This increase raised the County's property tax revenue by approximately \$128,000 in 2004.

The cost of all governmental activities this year was \$11.166 million compared to \$10,818 million last year. However, as shown in the Statement of Activities the amount taxpayers ultimately financed for these activities was only \$6.4 million because some of the cost was paid by those directly benefiting from the programs (\$1.16 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.21 million). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from approximately \$5.29 million to \$5.85 million. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$5.34 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Buchanan County completed the year, its governmental funds reported a combined fund balance of \$2.60 million, a increase of more than \$1.01 million above last year's total of \$1.65 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures increased when compared to the prior year. The ending fund balance showed a decline of \$155,069 from the prior year to \$30,412.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$2.37 million, a increase of 5% from the prior year. The Mental Health Fund balance at year end increased by approximately \$109,538 over the prior year.
- Secondary Roads Fund expenditures increased by approximately \$131,545 over the prior year, due principally to new bridges and roads, and flooding. The Secondary Roads Fund ending balance increased approximately by \$796,802.
- The Debt Service Fund ending balance decreased by approximately \$63,057.
- During the year ended June 30, 2004 the County issued \$250,000 of general obligation notes to help finance the Employees' Health Insurance. The proceeds from the note issue were placed in the General Fund and advanced to the Health Insurance Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Buchanan County amended its budget one time. The amendment was made in April 2004. This amendment was made for some additional charges for services revenues and an increase in operational expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At June 30, 2004, Buchanan County had approximately \$11.1 million invested in a broad range of capital assets, including public safety equipment, buildings, part facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$4.43 or 66% over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)

	June 30, 2004
Land	\$ 749
Buildings and Improvements	220
Equipment and Vehicles	6,064
Infrastructure	4,038
Construction in Process	31
Total	\$11,102

This year's major additions include (expressed in thousands)

Capital Assets Contributed by the IA Department of Transportation	\$3,883
Roads & Bridges	154
Replacement Secondary Road Equipment	513

Jail Construction	31
County Sheriff, Conservation Vehicles and Secondary Roads	142
Total	\$4,723

The County had depreciation expense of \$420,831 in FY 04 and total accumulated depreciation of \$3.094 million at June 30, 2004.

The County's fiscal year 2004 capital budget included \$335,478 for capital projects, principally for the conservation projects and upgrading of secondary roads and bridges. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2004 Buchanan County has approximately \$536,000 in general obligation notes and other debt outstanding compared to approximately \$468,000 at June 30, 2003, as shown below.

Outstanding Debt at Year-End of Governmental Activities (Expressed in Thousands)		
	2004	2003
General Obligation Notes	\$ 315	\$ 296
Capital Lease Purchase Agreements	0	8
Compensated Absences	221	164
Total	\$ 536	\$ 468

Debt increased as a result of issuing general obligation bonds for the health insurance fund.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Buchanan County's outstanding general obligation debt is significantly below its constitutional debt limit of \$34.8 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Buchanan County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various County services. One of those factors is the economy. Unemployment in the County now stands at 4.8% versus 4.6% a year ago. This compares with the State's unemployment rate of 4.5% and the national rate of 5.1%.

These indicators were taken into account when adopting the budget for fiscal year 2005. With the decrease in valuation, due to utilization of TIF valuation by the City of Independence, the tax rate increased. Increased cost of health insurance, cost-of-living adjustments, and increases in road construction and maintenance, due to flooding represent the largest increases. The County has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the County's budgetary operating balance is expected to modestly increase by the close of 2005.

CONTRACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Buchanan County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Buchanan County Auditor's Office, 210 – 5th Avenue NE, City of Independence, Iowa.

BUCHANAN COUNTY
Independence, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$2,918,383
Receivables	
Property Tax	
Delinquent	12,667
Succeeding Year	5,553,988
Interest & Penalty On Property Tax	931
Accounts	11,818
Accrued Interest	2,067
Due From Other Governments	329,803
Inventories	206,675
Prepaid Insurance	51,858
Capital Assets (Net of Accumulated Depreciation)	8,008,073
TOTAL ASSETS	17,096,263
LIABILITIES	
Accounts Payable	724,907
Accrued Interest Payable	3,884
Salaries & Benefits Payable	80,839
Due To Other Governments	158,507
Deferred Revenue	
Succeeding Year Property Tax	5,553,988
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Notes & Loans	92,668
Compensated Absences	220,564
Portion Due Or Payable After One Year	
General Obligation Bonds & Loans	222,675
TOTAL LIABILITIES	7,058,032
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	8,008,071
Restricted For:	
Mental Health Purposes	818,398
Secondary Roads Purposes	1,015,966
Other Purposes	562,121
Unrestricted	(366,325)
TOTAL NET ASSETS	\$10,038,231

See Notes To Financial Statements

BUCHANAN COUNTY
Independence, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			
		Charges for	Operating Grants,	Capital Grants,	Revenue
		Service	& Restricted Interest	& Restricted Interest	& Changes In Net Assets
GOVERNMENTAL ACTIVITIES:					
Public Safety and Legal Services	\$2,188,311	\$645,976	\$100,161	\$ 0	\$(1,442,174)
Physical Health and Social Services	156,303	16,808	51,959	0	(87,536)
Mental Health	2,372,403	0	1,091,887	0	(1,280,516)
County Environment and Education	640,638	25,427	8,887	53,964	(552,360)
Roads and Transportation	3,134,990	33,423	2,922,384	3,883,244	3,704,061
Governmental Services to Residents	335,188	283,185	22,689	0	(29,314)
Administration	1,707,777	17,262	78,285	0	(1,612,230)
Non-Program	101,051	138,145	0	0	37,094
Interest on Long-Term Debt	11,954	0	0	0	(11,954)
TOTAL	\$10,648,615	\$1,160,226	\$4,276,252	\$3,937,208	(1,274,929)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					5,185,725
Debt Service					157,952
Penalties and Interest on Property Tax					57,370
State Tax Credits					307,383
Local Option Sales Tax					436,607
Franchise Tax					18,049
Unrestricted Investment Earnings					29,348
Miscellaneous					321,394
Loss on Disposal of Capital Assets					(46,401)
TOTAL GENERAL REVENUES					6,467,427
CHANGE IN NET ASSETS					5,192,498
NET ASSETS, BEGINNING OF YEAR (as restated Note 14)					4,845,733
NET ASSETS END OF YEAR					\$10,038,231

See Notes To Financial Statements

BUCHANAN COUNTY
Independence, Iowa

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	<u>Special Revenue</u> Mental Health
ASSETS		
Cash and Pooled Investments		
County Treasurer	\$82,698	\$1,088,739
Receivables		
Property Tax		
Delinquent	8,384	3,314
Succeeding Year	3,127,221	1,236,302
Interest & Penalty on Property Tax	931	0
Accounts	9,862	31
Accrued Interest	2,015	0
Due From Other Governments	34,886	18,686
Prepaid Insurance	37,641	0
Inventories	0	0
TOTAL ASSETS	\$3,303,638	\$2,347,072
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	\$49,105	\$164,590
Salaries and Benefits Payable	29,556	4,332
Due To Other Governments	44,929	113,578
Deferred Revenue		
Succeeding Year Property Tax	3,127,221	1,236,302
Other	22,415	3,185
Total Liabilities	3,273,226	1,521,987
Fund Balances		
Reserved For:		
Inventories	0	0
Unreserved	30,412	825,085
Total Fund Balances	30,412	825,085
TOTAL LIABILITIES & FUND BALANCES	\$3,303,638	\$2,347,072

See Notes To Financial Statements

Special Revenue Funds		Debt Service	Special Revenue	Total
Rural Services	Secondary Roads			
\$310,186	\$1,091,360	\$(552)	\$294,500	\$2,866,931
741	0	228	0	12,667
1,105,114	0	85,351	0	5,553,988
0	0	0	0	931
0	1,757	0	168	11,818
0	0	0	52	2,067
41,993	234,196	42	0	329,803
0	14,217	0	0	51,858
0	206,675	0	0	206,675
<u>\$1,458,034</u>	<u>\$1,548,205</u>	<u>\$85,069</u>	<u>\$294,720</u>	<u>\$9,036,738</u>
\$4,532	\$393,540	\$ 0	\$ 0	\$611,767
14,425	32,526	0	0	80,839
0	0	0	0	158,507
1,105,114	0	85,351	0	5,553,988
708	0	220	0	26,528
<u>1,124,779</u>	<u>426,066</u>	<u>85,571</u>	<u>0</u>	<u>6,431,629</u>
0	206,675	0	0	206,675
333,255	915,464	(502)	294,720	2,398,434
<u>333,255</u>	<u>1,122,139</u>	<u>(502)</u>	<u>294,720</u>	<u>2,605,109</u>
<u>\$1,458,034</u>	<u>\$1,548,205</u>	<u>\$85,069</u>	<u>\$294,720</u>	<u>\$9,036,738</u>

See Notes To Financial Statements

BUCHANAN COUNTY
Independence, Iowa

RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total Governmental Fund Balances – Page 12-13 (Exhibit C) \$2,605,109

*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$11,102,138 and the accumulated depreciation is \$3,094,065. 8,008,073

Other long-term assets are not available to pay current expenditures and, therefore, are deferred in the funds. 26,528

The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. (61,688)

Long-term liabilities, including bonds payable, compensated absences payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported in the funds. (539,791)

Net Assets of Governmental Activities – Page 10 (Exhibit A) \$10,038,231

See Notes To Financial Statements.

BUCHANAN COUNTY
Independence, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Mental Health
REVENUES		
Property and Other County Tax	\$2,466,752	\$1,220,496
Interest and Penalty on Property Tax	57,370	0
Intergovernmental	934,784	1,253,320
Licenses and Permits	915	0
Charges for Services	372,395	319
Use of Money and Property	40,444	0
Miscellaneous	16,301	6,848
Total Revenues	3,888,961	2,480,983
EXPENDITURES		
Operating		
Public Safety and Legal Services	1,879,212	0
Physical Health and Social Services	127,158	0
Mental Health	0	2,371,445
County Environment and Education	361,672	0
Roads and Transportation	0	0
Governmental Services to Residents	331,088	0
Administrative Services	1,601,040	0
Non-program	101,051	0
Debt Service	9,335	0
Capital Projects	60,477	0
Total Expenditures	4,471,033	2,371,445
Excess (Deficiency) of Revenues Over (Under) Expenditures	(582,072)	109,538
Other Financing Sources (Uses)		
Sale of Capital Assets	4,200	0
Operating Transfers In	188,319	0
Operating Transfers Out	0	0
General Obligation Note Issued	250,000	0
Total Other Financing Sources (Uses)	442,519	0
Net Change in Fund Balances	(139,553)	109,538
Fund Balances – Beginning of Year, as Restated (Note 14)	169,965	715,547
Decrease in Reserve For Inventories	0	0
Fund Balances – End of Year	\$30,412	\$825,085

See Notes To Financial Statements

Exhibit E

Special Revenue Funds		Debt Service	Non-major Special Revenue	Total
Rural Services	Secondary Roads			
\$1,931,801	\$ 0	\$157,732	\$ 0	\$5,776,781
0	0	0	0	57,370
78,207	2,959,864	9,175	49,632	5,284,982
10,200	3,360	0	0	14,475
1,705	313	0	178,917	553,649
73,437	0	0	1,138	115,019
0	84,793	0	18,985	126,927
2,095,350	3,048,330	166,907	248,672	11,929,203
339,061	0	0	0	2,218,273
29,116	0	0	0	156,274
0	0	0	0	2,371,445
232,045	0	0	0	593,717
0	3,212,903	0	0	3,212,903
3,280	0	0	0	334,368
0	0	0	0	1,601,040
0	0	0	0	101,051
0	0	229,964	0	239,299
0	277,579	0	0	338,056
603,502	3,490,482	229,964	0	11,166,426
1,491,848	(442,152)	(63,057)	248,672	762,777
0	25	0	0	4,225
0	1,302,039	0	0	1,490,358
(1,302,039)	0	0	(188,319)	(1,490,358)
0	0	0	0	250,000
(1,302,039)	1,302,064	0	(188,319)	254,225
189,809	859,912	(63,057)	60,353	1,017,002
143,446	325,337	62,555	234,367	1,651,217
0	(63,110)	0	0	(63,110)
\$333,255	\$1,122,139	\$(502)	\$294,720	\$2,605,109

BUCHANAN COUNTY
Independence, Iowa

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds – Page 15-16 (Exhibit E) \$1,017,002

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$840,613	
Capital assets contributed by the Iowa Department of Transportation	3,883,244	
Depreciation Expense	(420,831)	4,303,026

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (50,626)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property Tax	3,503	
Other	6,608	10,111

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Issued	250,000	
Repaid	(239,304)	10,696

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences	(56,641)	
Interest on long-term debt	(3,277)	(59,918)

Inventories in the governmental funds have been recorded as expenditures when paid. However, the statement of activities will report these items as expenditures in the period that the corresponding net asset is exhausted. (63,110)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

25,317

Change in net assets of Governmental Activities – Page 11 (Exhibit B) \$5,192,498

See Notes to Financial Statements

**BUCHANAN COUNTY
Independence, Iowa****STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$51,452
 LIABILITIES	
Accounts Payable	113,140
<hr/>	
NET ASSETS	
Unrestricted	\$(61,688)
<hr/>	

See Notes To Financial Statements

**BUCHANAN COUNTY
Independence, Iowa****STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004**

	Internal Service Employee Group Health
OPERATING REVENUES	
Reimbursements From Operating Funds	\$1,223,456
Reimbursements From Employees	63,336
Miscellaneous	19,217
Total Operating Revenues	<u>1,306,009</u>
OPERATING EXPENSES	
Medical Claims	1,053,837
Insurance Premiums	217,706
Administrative Fees	7,829
Total Operating Expenses	<u>1,279,372</u>
Net Income	26,637
NON-OPERATING REVENUES	
Interest on Investments	<u>248</u>
Net Income	26,885
Net Assets Beginning of Year	<u>(88,573)</u>
Net Assets End of Year	<u>\$(61,688)</u>

See Notes To Financial Statements

Exhibit I**BUCHANAN COUNTY
Independence, Iowa****STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004**

	Internal Service Employee Group Health
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$1,223,456
Cash Received From Employees and Others	82,553
Cash Payments To Suppliers For Services	(1,231,633)
Net Cash Provided by Operating Activities	74,376
CASH FLOWS FORM INVESTING ACTIVITIES	
Interest on Investments	248
Net Increase in Cash and Cash Equivalents	74,624
Cash & Cash Equivalents at Beginning of Year	(23,172)
Cash & Cash Equivalents at End of Year	\$51,452
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$26,637
Adjustments to Reconcile Operating Income to Net Cash	
Provided By Operating Activities	
Increase In Accounts Payable	47,739
Net Cash Provided By Operating Activities	\$74,376

See Notes To Financial Statements

**BUCHANAN COUNTY
Independence, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash & Pooled Investments	
County Treasurer	\$761,769
Other County Officials	48,099
Receivables	
Property Tax	
Delinquent	1,824
Succeeding Year	14,620,041
Accounts	15,787
Accrued Interest	30
Due from Other Governments	8,047
TOTAL ASSETS	14,455,597

LIABILITIES

Accounts Payable	3,481
Salaries & Benefits Payable	382
Due To Other Governments	15,391,266
Trusts Payable	53,145
Compensated Absences	7,323
TOTAL LIABILITIES	15,455,597
NET ASSETS	\$ 0

See Notes To Financial Statements

BUCHANAN COUNTY

Independence, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Buchanan County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Buchanan County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Buchanan County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities that are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Two drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Though these districts are legally separate from the County, they are controlled, managed and supervised by the Buchanan County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Buchanan County Auditor's office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Buchanan County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Buchanan County Assessor's Conference Board, Franklin County Emergency Management Commission, and Buchanan County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the County and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's long-term debt.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the county and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Under the terms of grant agreements, the county funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary funds of the county applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Statements of Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is

deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>(In Years)</u>	Estimated Useful Lives
Buildings	40-65	
Building Improvements	20-50	
Infrastructure	10-65	
Equipment	2-20	
Vehicles	3-10	

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in the Non-program function.

Notes to Financial Statements (Continued)

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at amortized cost of \$2,561,216, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3: Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General Basic	Special Revenue:	
	Conservation Revenue	\$41,819
	Jail Room & Board	143,000
	Nature Center	3,500
Special Revenue:		
Secondary Roads	Rural Services	1,302,039
Total		<u>\$1,490,358</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to Financial Statements (Continued)

Note 4: Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$749,435	\$ 0	\$ 0	\$749,435
Construction in progress	0	31,500	0	31,500
Total capital assets not being depreciated	749,435	31,500	0	780,935
Capital assets being depreciated:				
Buildings	219,711	0	0	219,711
Machinery and equipment	4,845,000	531,679	196,526	5,180,153
Vehicles	858,474	142,059	117,184	883,349
Infrastructure, road network	0	4,037,990	0	4,037,990
Total capital assets being depreciated	5,923,185	4,711,728	313,710	10,321,203
Less accumulated depreciation for:				
Buildings	54,969	4,395	0	59,364
Machinery and equipment	2,323,960	222,962	184,288	2,362,634
Vehicles	557,389	83,448	78,796	562,041
Infrastructure, road network	0	110,026	0	110,026
Total accumulated depreciation	2,936,318	420,831	263,084	3,094,065
Total capital assets being depreciated, net	2,986,867	4,290,897	50,626	7,227,138
Governmental activities capital assets, net	\$3,736,302	\$4,322,397	\$50,626	\$8,008,073

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$54,451
Mental health	3,399
County environment and education	33,851
Roads and transportation	319,857
Governmental services to residents	5,530
Administration	3,743
Total depreciation expense – governmental activities	\$420,831

Notes to Financial Statements (Continued)

Note 5: Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$44,929
Special Revenue:		
Mental Health	Services	113,578
Total for governmental funds		<u>\$158,507</u>
Agency:		
Agricultural Extension	Collections	\$129,926
Assessor & Special Appraisal		421,495
Schools		8,553,493
Area Schools		575,882
Corporations		4,524,357
Auto License & Use Tax		366,073
All Others		820,040
Total for agency funds		<u>\$15,391,266</u>

Note 6: Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	Capital Leases	General Obligation Notes	Conservation Note	Compensated Absences	Total
Balance beginning of year,	\$8,682	\$221,287	\$74,678	\$166,894	\$471,541
Additions	0	250,000	0	53,670	303,670
Reductions	8,682	221,287	9,335	0	239,304
Balance end of year	<u>\$ 0</u>	<u>\$250,000</u>	<u>\$65,343</u>	<u>\$220,564</u>	<u>\$535,907</u>
Due within one year	<u>\$ 0</u>	<u>\$83,333</u>	<u>\$9,335</u>	<u>\$220,564</u>	<u>\$313,232</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

Lease Purchase Agreements

The County has entered into a lease purchase agreement for a Conservation Tractor and Loader. The Lease was paid in full during the year ended June 30, 2004. Payments under this agreement totaled \$9,134.

Notes Payable

During the year ended June 30, 1999, the County renewed the General Obligation Solid Waste Disposal note with advances bringing the note balance to \$1,065,000. The proceeds of the note are to pay the postclosure costs of Buchanan County Landfill on behalf of the Buchanan County Landfill Commission. The note is due on February 1, 2004 at 3.9% per annum with annual principal payments beginning June 1, 2000 and semi-annual interest payments beginning December 1, 1999. The note relieves the County of the estimated liability for Postclosure Care Costs. During the year ended June 30, 2004, payments totaling \$229,941, paid the notes in full.

During the year ended June 30, 2004, the County issued a \$250,000 General Obligation Health Insurance Note. The note bears interest of 2.1%, payable May 1 and November 1, commencing on November 1, 2004. Principal is also due semi-annually, due on November 1, 2004 through November 1, 2006 with a final amount on May 1, 2007. The note was issued for the purpose of providing funds to pay a portion of the cost of providing health insurance coverage for County employees.

A summary of the County's General Obligation Note debt is as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2005	2.1%	\$83,333	\$7,348	\$90,681
2006	2.1	83,333	3,066	86,399
2007	2.1	83,334	1,316	84,650
		<u>\$250,000</u>	<u>\$11,730</u>	<u>\$261,730</u>

During the year ended June 30, 2001, the Executive Council of Iowa approved a loan from the Contingency Fund for the Fontana Dam Restoration Project to the Buchanan County Conservation Board. The loan is free of interest and is due in 10 annual installments of \$9,335, the first payment due on December 4, 2001.

A summary of debt is as follows:

Year Ending June 30,	Principal
2005	\$9,335
2006	9,335
2007	9,335
2008	9,335
2009	9,335
2010	9,335
2011	9,333
	<u>\$65,343</u>

Notes to Financial Statements (Continued)

Note 6: Changes in Long-Term Liabilities (Continued)

Notes Payable (Continued)

During the year ended June 30, 2001, the County issued General Obligation E-911 Communication Equipment Notes for the purchase of E-911 equipment. The note is due on April 1, 2006 at 4.4% per annum with quarterly principal and interest payments beginning July 1, 2001. The debt is not included in the County's debt as it is paid from sources other than County funds. A summary of the debt is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$23,505	\$1,732	\$25,237
2006	24,577	680	25,257
	<u>\$48,082</u>	<u>\$2,412</u>	<u>\$50,494</u>

Payment during the year totaled \$25,237.

Note 7: Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$221,869, \$208,868, and \$193,774, respectively, equal to the required contributions for each year.

Note 8: Risk Management

Buchanan County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

Notes to Financial Statements (Continued)

Note 8: Risk Management (Continued)

The Pool also provides coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$107,592.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of their capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for worker's compensation and employee blanket bond in excess of \$500,000 and \$20,000 per employee, with additional \$30,000 coverage on the Treasurer. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9: Health Insurance Plan

The County is self-insured for health insurance coverage of its employees. Claims of the employees are submitted to a third-party administrator who, in turn, bills the plan funds for the necessary amount. The plan is covered by a reinsurer to protect the stop-loss of 125% of expected claims.

At the most recent plan year-end the plan assets had a deficit of \$61,688.

Notes to Financial Statements (Continued)

Note 10: Commitments and Contingencies

The County participates in a number of federally assisted grant programs. The programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, County officials do not believe that such amounts would be significant.

Note 11: Related Party Transactions

The County had no business transactions between the County and County officials during the year ended June 30, 2004.

Note 12: Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed amounts budgeted by Function or amounts appropriated by department. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Administration Function and disbursements in certain departments exceeded the amounts appropriated.

Note 13: Deficit Balance

A deficit fund balance of \$15,145 was noted in the Emergency Management Fund.

The Internal Service Fund, Health Insurance had a deficit balance in net assets at June 30, 2004 of \$61,688.

Note 14: Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column.

The government-wide statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

Notes to Financial Statements (Continued)

Note 14: Accounting Change and Restatement (Continued)

The effects of the accounting change and other restatements in the governmental activities is summarized as follows:

Net Assets, June 30, 2003 as previously reported		\$1,601,266
GASB Interpretation 6 Adjustments		<u>49,951</u>
Net Assets, July 1, 2003 as restated for Governmental Funds		1,651,217
GASB 34 Adjustments		
Capital Assets, net of accumulated depreciation of \$2,936,318		3,736,302
Internal Service Fund		(88,573)
Change in Long Term Liabilities		
Notes Payable	\$(295,965)	
Lease Payable	(8,682)	
Compensated Absences	(163,923)	
Accrued Interest Payable	<u>(1,060)</u>	(469,630)
Change in Deferral of Long Term Assets		
Property Taxes	8,667	
Other	<u>7,750</u>	16,417
Net Assets, as restated at July 1, 2003		<u><u>\$4,845,733</u></u>

BUCHANAN COUNTY
Independence, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$5,340,408	\$0	\$5,340,408	\$5,543,463	\$5,804,501	\$(464,093)
Interest & Penalty on Property Tax	56,817	0	56,817	45,000	21,000	35,817
Intergovernmental	5,736,626	0	5,736,626	5,017,784	5,266,033	470,593
Licenses & Permits	14,685	0	14,685	12,200	12,200	2,485
Charges for Services	572,526	0	572,526	429,700	528,100	44,426
Use of Money & Property	116,149	0	116,149	128,000	113,000	3,149
Miscellaneous	131,041	0	131,041	93,000	93,000	38,041
Total Receipts	11,968,252	0	11,968,252	11,269,147	11,837,834	130,418
DISBURSEMENTS						
Public Safety & Legal Services	2,196,353	0	2,196,353	2,319,434	2,335,178	138,825
Physical Health & Social Services	159,321	0	159,321	260,522	260,522	101,201
Mental Health	2,366,781	0	2,366,781	2,742,156	2,742,156	375,375
County Environment & Education	594,767	0	594,767	655,723	630,841	36,074
Roads & Transportation	3,358,785	0	3,358,785	4,000,000	4,000,000	641,215
Governmental Services to Residents	335,398	0	335,398	391,588	391,588	56,190
Administrative Services	1,606,156	0	1,606,156	1,216,724	1,435,694	(170,462)
Non-program	105,440	0	105,440	32,766	146,299	40,859
Debt Service	239,299	0	239,299	9,340	239,306	7
Capital Projects	335,478	0	335,478	384,635	384,635	49,157
Total Disbursements	11,297,778	0	11,297,778	12,012,888	12,566,219	1,268,441
Excess (Deficiency) of Receipts Under Disbursements	670,474	0	670,474	(743,741)	(728,385)	1,398,859
Other Financing Sources, Net	251,725	0	251,725	0	31,665	220,060
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	922,199	0	922,199	(743,741)	(696,720)	1,618,919
Balance Beginning of Year	1,944,732	476	1,944,256	1,589,018	1,944,259	(3)
Balance End of Year	\$2,866,931	\$ 476	\$2,866,455	\$845,277	\$1,247,539	\$1,618,916

See Accompanying Independent Auditors' Report

BUCHANAN COUNTY
Independence, Iowa

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$11,968,252	\$(39,049)	\$11,929,203
Expenditures	11,297,778	(131,352)	11,166,426
Net	670,474	92,303	762,777
Other Financing Sources, net	251,725	2,500	254,225
Beginning Fund Balances	1,944,256	(293,039)	1,651,217
Decrease in Reserve For:			
Inventories	0	(63,110)	(63,110)
Ending Fund Balances	\$2,866,455	\$(261,346)	\$2,605,109

See Accompanying Independent Auditors' Report

Buchanan County
Independence, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriation lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$553,331. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Administration function and disbursements in certain departments exceeded the amounts appropriated. Emergency Management and E911 disbursements exceeded the amounts budgeted.

BUCHANAN COUNTY
Independence, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	REAP	Recorder Records Management	Recorders Electronic Transaction
ASSETS			
Cash & Pooled Investments			
County Treasurer	\$28,617	\$15,196	\$22,726
Receivables			
Accounts	168	0	0
Accrued Interest	12	16	12
TOTAL ASSETS AND OTHER DEBITS	\$28,797	\$15,212	\$22,738
FUND EQUITY			
Fund Equity			
Fund Balance			
Unreserved	\$28,797	\$15,212	\$22,738
FUND EQUITY AND OTHER CREDITS	\$28,797	\$15,212	\$22,738

See Accompanying Independent Auditors' Report

Schedule 1

Board and Room	Nature Center	Drainage	Conservation Reserve	Total
\$27,889	\$26,400	\$476	\$173,196	\$294,500
0	0	0	0	168
0	12	0	0	52
\$27,889	\$26,412	\$476	\$173,196	\$294,720
\$27,889	\$26,412	\$476	\$173,196	\$294,720
\$27,889	\$26,412	\$476	\$173,196	\$294,720

BUCHANAN COUNTY
Independence, Iowa

COMBINING SCHEDULE OF REVENUES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	REAP	Recorder Records Management	Recorders Electronic Transaction
Revenues			
Intergovernmental	\$11,986	\$ 0	\$ 0
Charges for Services	0	5,576	22,688
Use of Money and Property	97	55	50
Miscellaneous	0	0	0
Total Revenues	12,083	5,631	22,738
Excess of Revenues Over Expenditures	12,083	5,631	22,738
Other Financing Sources (Uses)			
Operating Transfers Out	0	0	0
Total Other Financing Sources (Uses)	0	0	0
Net Change in Fund Balances	12,083	5,631	22,738
Fund Balances – Beginning of Year	16,714	9,581	0
Fund Balances – End of Year	\$28,797	\$15,212	\$22,738

See Accompanying Independent Auditors' Report

Schedule 2

Board and Room	Nature Center	Drainage	Conservation Reserve	Total
\$ 0	\$ 0	\$ 0	\$37,646	\$49,632
150,653	0	0	0	178,917
0	139	0	797	1,138
0	4,332	0	14,653	18,985
150,653	4,471	0	53,096	248,672
150,653	4,471	0	53,096	248,672
(143,000)	(3,500)	0	(41,819)	(188,319)
(143,000)	(3,500)	0	(41,819)	(188,319)
7,653	971	0	11,277	60,353
20,236	25,441	476	161,919	234,367
\$27,889	\$26,412	\$ 476	\$173,196	\$294,720

BUCHANAN COUNTY
Independence, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and Pooled Investments				
County Treasurer	\$ 0	\$1,706	\$68,138	\$121,245
Other County Officials	48,099	0	0	0
Receivables				
Property Tax				
Delinquent	0	14	18	859
Succeeding Year	0	128,206	165,999	8,427,153
Accounts	0	0	0	0
Accrued Interest	0	0	0	0
Due from Other Governments	0	0	86	4,236
TOTAL ASSETS	\$48,099	\$129,926	\$234,241	\$8,553,493
LIABILITIES				
Accounts Payable	\$ 0	\$ 0	\$ 50	\$ 0
Salaries and Benefits Payable	0	0	0	0
Due to Other Governments	0	129,926	228,571	8,553,493
Trusts Payable	48,099	0	0	0
Compensated Absences	0	0	5,620	0
TOTAL LIABILITIES	\$48,099	\$129,926	\$234,241	\$8,553,493

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporations	Townships	Auto License & Use Tax	Other	Total
\$6,423 0	\$53,132 0	\$2,556 0	\$366,073 0	\$142,496 0	\$761,769 48,099
64 569,091 0 0 304	795 4,467,419 0 0 3,011	3 177,817 0 0 55	0 0 0 0 0	71 684,356 15,787 30 355	1,824 14,620,041 15,787 30 8,047
\$575,882	\$4,524,357	\$180,431	\$366,073	\$843,095	\$15,455,597
\$ 0 0 575,882 0 0	\$ 0 0 4,524,357 0 0	\$ 0 0 180,431 0 0	\$ 0 0 366,073 0 0	\$3,431 382 832,533 5,046 1,703	\$3,481 382 15,391,266 53,145 7,323
\$575,882	\$4,524,357	\$180,431	\$366,073	\$843,095	\$15,455,597

BUCHANAN COUNTY
Independence, Iowa

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS**

Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances Beginning of Year	\$43,990	\$124,766	\$235,080	\$8,668,933
Additions				
Property and Other County Tax	0	128,917	166,953	8,473,676
E911 Surcharge	0	0	0	0
State Tax Credits	0	7,307	9,903	513,237
Office Fees and Collections	315,550	0	0	0
Auto Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	179,954	0	0	0
Miscellaneous	893	0	8,294	0
Total Additions	496,397	136,224	185,150	8,986,913
Deductions				
Agency Remittances				
To Other Funds	184,699	0	0	0
To Other Governments	131,375	131,064	185,989	9,102,353
Trusts Paid Out	176,214	0	0	0
Total Deductions	492,288	131,064	185,989	9,102,353
Balances End of Year	\$48,099	\$129,926	\$234,241	\$8,553,493

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	Auto License & Use Tax	Other	Totals
\$476,776	\$3,789,943	\$174,090	\$288,270	\$853,228	\$14,655,076
571,607	4,379,360	180,043	0	688,194	14,588,750
0	0	0	0	86,159	86,159
28,085	230,620	9,328	0	40,125	838,605
0	0	0	0	27,785	343,335
0	0	0	4,240,144	0	4,240,144
0	0	0	0	183,857	183,857
0	0	0	0	235,637	415,591
0	0	0	0	119,920	129,107
599,692	4,609,980	189,371	4,240,144	1,381,677	20,825,548
0	0	0	135,759	0	320,458
500,586	3,875,566	183,030	4,026,582	1,131,078	19,267,623
0	0	0	0	260,732	436,946
500,586	3,875,566	183,030	4,162,341	1,391,810	20,025,027
\$575,882	\$4,524,357	\$180,431	\$366,073	\$843,095	\$15,455,597

BUCHANAN COUNTY
Independence, Iowa

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES**

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property & Other County Tax	\$5,776,781	\$5,200,535
Interest & Penalty On Property Tax	57,370	52,977
Intergovernmental	5,284,982	4,742,734
Licenses & Permits	14,475	12,182
Charges For Service	553,649	537,460
Use of Money & Property	115,019	125,301
Miscellaneous	126,927	158,158
Total	<u>\$11,929,203</u>	<u>\$10,829,347</u>
Expenditures:		
Operating		
Public Safety & Legal Services	\$2,218,273	\$2,233,465
Physical Health & Social Services	156,274	183,352
Mental Health	2,371,445	2,248,634
County Environment & Education Services	593,717	617,592
Roads and Transportation	3,212,903	3,441,287
Governmental Services To Residents	334,368	337,830
Administration Services	1,601,040	1,227,014
Non-Program	101,051	35,563
Debt Services	239,299	252,078
Capital Projects	338,056	241,242
Total	<u>\$11,166,426</u>	<u>\$10,818,057</u>

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Buchanan County:

We have audited the financial statements of Buchanan County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated May 17, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Buchanan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for item (2) and (12).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Buchanan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Buchanan County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A) and (B).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Buchanan County and other parties to whom Buchanan County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Buchanan County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

May 17, 2005

BUCHANAN COUNTY
Independence, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the Financial Statements

REPORTABLE CONDITIONS

- (A) **Segregation of Duties** – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. Responsibility for the custody of receipts and for the record keeping and reconciling functions for the County Treasurer's office are not segregated due to small office size. Also, an independent person does not approve bank wire transfers for investments.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

- (B) **Information Systems** – During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- Usage of the Internet

Recommendation – The County should develop written policies addressing the above item in order to improve the County's control over computer based systems.

Response – The County will comply in the future with this recommendation. County officials have discussed and agree that this policy is needed. The Internet usage policy is in the process of being completed.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- 2 **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the Non-program function. Disbursements exceeded amounts appropriated in several departments during the year ended June 30, 2004. An appropriation decrease of the greater of 10% or \$5,000 was not preceded by a public hearing as required by Chapter 331.434(6) of the Code of Iowa.

The Emergency Management and E911 budgets were over expended.

Recommendation – The County budget and the Emergency Management Board budgets should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution to increase appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the service area budget is not increased. Such increases should be made before disbursements are allowed to exceed appropriation. Public hearings should precede appropriation decreases of the greater of 10% or \$5,000.

Response – We will amend the budget when required and adjust appropriations as necessary, public hearings will be held when required.

Conclusion – Response accepted.

- 3 **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transaction** – We noted no business transactions between the County and County officials or employees.
- 6 **Bond Coverages** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed periodically to ensure that coverage is adequate for current operations.
- 7 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 8 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- 9 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) ad (b)(3).
- 10 **Economic Development** – During the year ended June 30, 2004, the County paid \$26,000 to the Buchanan County Economic Development Commission. The expenditure appears to meet public purpose as required by Chapter 15A of the Code of Iowa and an Attorney General’s opinion dated August 28, 1986.
- 11 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

- 12 **Deficit Budget** – We noted a deficit fund balance in the Emergency Management Fund of \$15,145. The Internal Service – Health Insurance Fund had a deficit balance of \$61,688.

Recommendation – The County should determine a method to eliminate the deficit balances.

Response – We will watch these funds more closely and work to eliminate the deficit through the budget.

Conclusion – Reponse accepted.

- 13 **Separately Maintained Accounts** – We noted a number of Sheriff's accounts that were not included in the County budget process, accounting system and financial reporting. There appears to be no legal reason for these accounts to be separately maintained.

Recommendation – These accounts should be turned over to the Treasurer and Special Revenue Funds should be established for these accounts. These funds should be included in the County's budget process, accounting system and financial reporting. All disbursements should be included in the claims process.

Response – We hope to have this accomplished by the beginning of the next fiscal year. County officials agree that this is necessary.

Conclusion – Response accepted.

News Release

June 20, 2005

Gardiner Thomsen, P.C. today released an audit report on Buchanan County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$21,074,912 for the year ended June 30, 2004, which included \$1,075,608 in tax credits from the State. The County then forwarded \$14,696,011 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$6,378,901 of the local tax revenue to finance County operations, a 6% increase from the prior year. Other revenues included charges for service of \$1,160,226, operating grants, contributions and restricted interest of \$4,276,252, unrestricted investment earnings of \$29,348 and other general revenues of \$321,394.

Expenses for the County operations totaled \$11,166,426, a 1% increase from the prior year. Expenses included \$3,212,903 for Roads and Transportation, \$2,371,445 for Mental Health, and \$2,218,273 for Public Safety and Legal Services.

The significant increase in revenues and expenses is due primarily to increased Intergovernmental revenue and Capital Projects expenses.

A copy of the audit report is available for review in the Office of the Auditor of State and the County Auditor's office.

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